

DIRECT TESTIMONY

of

MIKE LUTH

Rates Department
Financial Analysis Division
Illinois Commerce Commission

Consumers Illinois Water Company and
Oakview Avenue Waterworks, Inc.

Docket No. 03-0556

October 2, 2003

INTRODUCTION TO TESTIMONY

1 Q. Please state your name and business address.

2 A. Mike Luth, 527 East Capitol Avenue, Springfield, Illinois 62701.

3 Q. Please state your professional qualifications and work experience.

4 A. I received a B.S. in Accounting from Illinois State University. I have
5 earned the C.P.A and C.M.A professional designations. Since graduating,
6 I have worked as an Assistant Property Manager with a real estate
7 company and as a Field Auditor with the Wisconsin Department of
8 Revenue. In October 1990, I joined the Accounting Department of the
9 Illinois Commerce Commission ("Commission"). In June 1998, I
10 transferred from the Accounting Department of the Commission to the
11 Rates Department.

12 Q. Have you testified in any previous Commission dockets?

13 A. Yes. I have testified on numerous occasions before the Commission.

PURPOSE OF TESTIMONY

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to address the Joint Verified Application
16 filed by Consumer Illinois Water Company ("CIWC", or "Consumers") and
17 Oakview Avenue Water Works, Inc. ("Oakview") in which approval is
18 sought from the Commission for Consumers to purchase the assets and

19 property rights of Oakview, with Consumers becoming the company that
20 provides water service to the customers presently served by Oakview.
21 Specifically, I will address Consumers' proposal to increase the amount
22 that Oakview customers currently pay for water service, from \$18.00 per
23 month to an estimated \$51.20 per month as a result of an additional
24 charge estimated to be \$33.20 per month, which Consumers has identified
25 as the Required Plant Surcharge ("RPS").

26 Q. Are you making any recommendations concerning the appropriateness of
27 the total annual revenue requirement from Oakview in this proceeding?

28 A. No, I am not. My testimony is directed toward the review of the proposed
29 tariffs and underlying support filed by the Company to recover the revenue
30 requirement deemed appropriate in this proceeding.

RPS

31 Q. What is the purpose of the RPS?

32 A. CIWC's proposed tariff (Revised CIWC Exhibit 1.3) states that the RPS
33 provides Consumers a return of (depreciation) and a return on the actual
34 cost of Required Plant. The Joint Verified Application equates "Required
35 Plant" to "Compliance Items", which are described as plant required to
36 comply with certain environmental laws and regulations, as ordered by the
37 Circuit Court of the Twelfth Judicial Circuit, Will County, Illinois (CIWC
38 Exhibit 1.1, paragraphs 6 and 11). Compliance Items, or Required Plant,

39 include, but are not limited to the installation of: a storage tank, and
40 facilities to provide auxiliary power.

41 Q. What will Oakview customers be billed if the RPS is approved in the Order
42 in this docket?

43 A. The current estimate of the RPS is \$33.20 per month [CIWC Exhibit G
44 (Revised)], which would be in addition to the current Oakview charge of
45 \$18.00 per month. If the Order approves the RPS, Oakview customers
46 will then pay a combined estimate of \$51.20 per month (\$18.00 + \$33.20).

47 Q. Does the RPS recover depreciation and a return on the actual cost of
48 Required Plant?

49 A. Based upon a brief review of the estimated cost of the Required Plant, as
50 described by Consumers, and accepting the assumptions included in
51 CIWC Exhibit G, the RPS recovers the depreciation on a 10-year basis of
52 the Required Plant and provides Consumers with a return on the cost of
53 Required Plant over the 10 years (120 months) that the RPS can remain
54 in effect.

55 Q. What is the Required Plant that is the basis for the RPS?

56 A. The Required Plant, as explained by Consumers, must be installed in
57 order to provide Oakview customers with functioning water service that is
58 safe, reliable, and adequate.

59 Q. Since the RPS increases the monthly amount that Oakview customers will
60 pay for water service per month, from \$18.00 to an estimated \$51.20, why
61 is the proposed acquisition, including the RPS, not likely to result in any
62 adverse rate impacts on retail customers, as required by Section 7-204 (7)
63 of the Public Utilities Act?

64 A. As explained by Consumers (CIWC Exhibit 1.5, data request Rates-5,
65 page 30 of 30), any owner or operator of the Oakview system would be
66 required to install the required plant. Assuming the installation of the
67 required plant by Consumers is least-cost, it is likely that Oakview rates
68 would be increased as a result of the cost of the required plant, whether
69 installed under the direction of Consumers or under the direction of some
70 other hypothetical management. Since the amounts paid under the RPS
71 will be recorded as contributions in aid of construction ("CIAC"), rate base
72 in a future Oakview rate docket that includes the cost of the required plant
73 will be reduced by the amount of CIAC, net of amortization, through the
74 test year for that docket.

75 Q. Does this conclude your direct testimony?

76 A. Yes.